



MEMORANDUM

November 10, 2010

TO: Nancy Floreen, President, County Council

FROM: Isiah Leggett, County Executive *Isiah Leggett*

SUBJECT: FY11 Savings Plan

Per our recent conversation and discussion, I will be submitting to the Council in December an updated and more comprehensive savings plan. This savings plan will respond not only to the loss of Emergency Medical Services Transport Fee revenues (EMST Fee), but also account for other material factors that are adding to the FY12 budget gap including potential reductions to County tax revenues and continued stagnation in the unemployment rate and the local and national economy. In late September, the County's fiscal team provided a fiscal update to the Council that indicated that the projected gap for FY12 was at least \$145 million.

Since that time, we have been notified by Montgomery County Public Schools (MCPS) that due to rising enrollment, the cost of complying with the State mandated Maintenance of Effort (MOE) requirement has increased by \$13.5 million. Further, the results of the most recent national elections will very likely lead to a reduction in Federal grants and other aid to the County and the State, reduced federal spending locally, as well as potential reductions in federal hiring and wages. All of these would adversely affect County income tax and other revenue streams.

I need to emphasize that the rejection of the EMST Fee was not a one-time event, but had a multi-year continuing fiscal impact that must be addressed. This revenue loss has caused not only a significant fiscal imbalance of over \$14 million in the current fiscal year, it will cause an imbalance in the planned FY12 operating budget of an additional \$14 million, for a combined fiscal impact of over \$28 million.¹ Restoring balance in both the current year and in the out years of the approved fiscal plan requires immediate action to reduce spending. In addition, it should be noted that the EMST Fee revenues were included in the materials presented

¹ The six year approved balanced fiscal plan approved by the Council this past June assumed nearly \$93 million in EMST fee revenues.

to the rating agencies this spring where representations were made that the County would maintain a structurally balanced budget.

While uncertainties exist concerning the precise effect of these events on County revenues and the local economy, it is clear it will be a significant negative impact. When our revenue forecasts are completed over the next few weeks, we will make appropriate adjustments to the previously submitted savings plan that will incorporate the most recent revenue and expenditure estimates. However, we must be cautious adjusting our overall revenue estimate based solely on one revenue distribution given that our projected FY12 budget gap is now estimated at close to \$200 million.

The approach I am recommending with the FY11 savings plan is consistent with our previous efforts. Each year since FY08 I have transmitted a mid-year savings plan in the fall to address both known problems in the current year as well as fiscal challenges projected for the coming year. Our joint efforts in this regard have been successful and we have managed to craft savings plans that have identified millions in cost reductions that have contributed substantially to resolving our budgetary challenges.

As in the past, I am open to discussing and working with the Council on revisions to the plan previously submitted to the Council. However, the process for approving these reductions should begin as soon as possible so that the appropriate steps can be taken by our departments to notify those affected by the cuts and begin conserving resources in the current year. We have only seven and one-half months to address a full year problem. The longer we defer action, the more difficult it will become to realize these savings. Inaction will require only larger reductions in services in FY12.

I understand the Council's desire to avoid these spending cuts and the resulting reductions in County services, so do I. However, economic conditions, downward revenue trends, and the rejection of the EMST Fee permit no alternative course of action to maintaining a responsible and balanced budget. My recommended course of action reflects our commitments to the taxpayers as well as the rating agencies.